

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-10 IO-13
ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00
FRB-03 H-01 INR-10 INT-05 L-03 LAB-04 NSAE-00
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TRSE-00 USIA-06 SP-02 SOE-02 OMB-01 DOE-15 /161 W
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FM AMEMBASSY WELLINGTON
TO SECSTATE WASHDC 5228
INFO AMEMBASSY CANBERRA
AMEMBASSY PARIS
USMISSION GENEVA
AMCONSUL AUCKLAND

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PARIS FOR USOECM

GENEVA FOR USMTN

E.O. 11652: N/A
TAGS: ETRD, NZ
SUBJECT: GNZ PRACTICE OF ISSUING SPECIAL LICENSES FOR
- IMPORTS FROM SPECIFIC COUNTRIES HITS THE PRESS

1. SUMMARY: RECENT PRESS REPORTS HAVE BROUGHT TO LIGHT
A LONG-STANDING GNZ PRACTICE OF MAKING SPECIAL IMPORT
LICENSES AVAILABLE FOR THE IMPORTATION OF GOODS IN
LIMITED QUANTITIES FROM CERTAIN STATE-TRADING AND LESS-
DEVELOPED COUNTRIES. IT APPEARS THAT AT LEAST 21
COUNTRIES BENEFIT FROM THESE LICENSES, WHICH ARE MADE
AVAILABLE TO LOCAL IMPORTERS NOMINATED BY THE EMBASSIES
OF THE COUNTRIES IN QUESTION, AND THAT DOLS 6-7 MILLION
IN IMPORTS EACH YEAR ARE COVERED BY THESE SPECIAL
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LICENSES. WE QUESTION WHETHER SUCH A SYSTEM IS COM-
PLETELY IN ACCORD WITH NEW ZEALAND'S OFT REPEATED
CONTENTION THAT ITS LICENSING SYSTEM IS NON-
DISCRIMINATORY. END SUMMARY.

2. LOCAL PRESS REPORTS IN RECENT DAYS HAVE REVEALED
THE EXISTENCE OF A POLICY OF ISSUING SPECIAL IMPORT

LICENSES TO PERMIT SELECTED COUNTRIES, PRINCIPALLY LDC'S, TO INTRODUCE NEW PRODUCT LINES INTO THE NEW ZEALAND MARKET. THIS POLICY HAS APPARENTLY BEEN IN OPERATION SINCE AT LEAST 1970, AND TODAY AT LEAST 21 COUNTRIES BENEFIT FROM IT. THEY ARE BULGARIA, CHILE, CHINA, CZECHOSLOVAKIA, FIJI, GREECE, HUNGARY, INDONESIA, JAMAICA, KOREA, MALAYSIA, MEXICO, THE PHILIPPINES, POLAND, ROMANIA, SINGAPORE, TAIWAN, THAILAND, TRINIDAD/TOBAGO, USSR, AND YUGOSLAVIA. IN ADDITION TO THESE CONFIRMED RECIPIENTS, THERE ARE RUMORS THAT INDIA, PAKISTAN, AND SRI LANKA ARE ALSO BENEFICIARIES OF SUCH LICENSES.

3. THE POLICY WAS INTRODUCED ORIGINALLY IN ORDER TO ASSIST THOSE LDC'S WITH SEVERE TRADING IMBALANCES WITH NEW ZEALAND TO OVERCOME THE BARRIER OF IMPORT LICENSING IN INTRODUCING NEW PRODUCT LINES INTO THIS COUNTRY. THE THEORY WAS THAT THESE SPECIAL LICENSES WOULD BE MADE AVAILABLE TO ESTABLISHED IMPORTERS SO THAT THEY COULD "TRY OUT" LDC-SOURCE PRODUCTS; IF THEY WERE SUCCESSFUL, THE IMPORTERS COULD THEN CHANGE THEIR SOURCING UNDER THEIR REGULAR IMPORT LICENSES, AS THE SPECIAL LICENSES WERE TO BE ONLY TEMPORARY. WHAT BEGAN AS A MINHSCULE AND CLOSELY RESTRICTED PROGRAM HAS MUSHROOMED OVER THE YEARS TO A SITUATION IN WHICH, FOR EXAMPLE, CHINA REPORTEDLY RECEIVES AT LEAST DOLS 300,000 LIMITED OFFICIAL USE

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IN SPECIAL LICENSES EACH YEAR (SOME SOURCES SUGGEST THAT THE FIGURE IS IN FACT DOLS 500,000), THE PHILIPPINES DOLS 300,000, AND EACH OF THE OTHER ASEAN STATES DOLS 100,000, CHILE DOLS 100,000, AND TAIWAN, DOLS 60,000.

4. COUNTRIES CAN ONLY BE ADDED TO THE SPECIAL-LICENSES LIST AS THE RESULT OF A POLICY DECISION BY THE MINISTER OF OVERSEAS TRADE FOLLOWING A REQUEST BY THE COUNTRY IN QUESTION. THE MINISTER ALSO DETERMINES THE MAXIMUM LICENSE ALLOCATION TO BE MADE AVAILABLE TO THE COUNTRY. THE COUNTRY'S EMBASSY THEN NOMINATES SPECIFIC PRODUCTS TO BE IMPORTED UNDER THE LICENSES, AND SPECIFIC NZ IMPORTERS TO RECEIVE THE LICENSES. THE DEPARTMENT OF TRADE AND INDUSTRY, WHICH ISSUES ALL IMPORT LICENSES, HAS RESERVED SINCE THE INCEPTION OF THE PROGRAM THE RIGHT TO VETO THE PRODUCTS SO NOMINATED (AS, FOR EXAMPLE, WHEN THEIR IMPORTATION MIGHT SEVERELY DISRUPT THE DOMESTIC MARKET FOR THAT PRODUCT) BUT ONLY SINCE LATE IN 1976 HAS IT RESERVED THE RIGHT TO PASS ALSO ON THE IMPORTERS NOMINATED. DEPARTMENT OFFICIALS CLAIM TO HAVE EXERCISED THEIR PRODUCT VETO SEVERAL TIMES,

OFTEN UNDER PRESSURE FROM LOCAL MANUFACTURERS, BUT SAY THAT THEY HAVE ONLY RARELY VETOED SPECIFIC IMPORTER NOMINATIONS, AND THEN ONLY ON THE GROUND THAT THE IMPORTER CITED WAS EITHER NOT CAPABLE OF SUITABLY HANDLING THE GOODS IN QUESTION OR DID NOT HAVE A REGULAR IMPORT LICENSE FOR THE PRODUCT AND THEREFORE COULD NOT HOPE TO HANDLE THE LINE SHOULD THE SPECIAL LICENSE BE WITHDRAWN.

5. SPECIAL IMPORT LICENSES ARE REVIEWED ANNUALLY BY THE DEPARTMENT, AND A DECISION MADE IN EACH CASE AS TO WHETHER TO RENEW SPECIAL LICENSES FOR EACH PRODUCT IMPORTED UNDER THEM. IN THEORY, AS SOON AS THE PUMP-PRIMING PHASE FOR WHICH THE SPECIAL LICENSES ARE IN-LIMITED OFFICIAL USE

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TENDED IS OVER, THE IMPORTER SHOULD REVERT TO HIS NORMAL LICENSE ALLOTMENT. HOWEVER, IN PRACTICE IT APPEARS THAT SPECIAL LICENSES HAVE A HABIT OF BECOMING

INSTITUTIONALIZED; WE HAVE HEARD, FOR EXAMPLE, THAT FOR AT LEAST THE LAST THREE LICENSING YEARS, SPECIAL LICENSES HAVE BEEN ISSUED FOR THE IMPORTATION OF BULGARIAN JAMS, HUNGARIAN PAPRIKA, AND JAMAICAN GRAPEFRUIT SECTIONS.

6. DEPARTMENT OFFICIALS INFORM US THAT THE SPECIAL LICENSE DOCUMENT ITSELF DOES NOT SPECIFY THE COUNTRY-OF-ORIGIN FOR THE GOODS IT COVERS. RATHER, THEY SAY, THE DEPARTMENT, THE EMBASSY IN QUESTION, THE IMPORTER, AND THE CUSTOMS DEPARTMENT (WHICH VERIFIES THAT ALL IMPORTS ARE SUITABLY LICENSED) ALL "UNDERSTAND" THE COUNTRY LIMITATION WHICH APPLIES. WE HAVE LEARNED, HOWEVER, THAT AT LEAST ONE LOCAL IMPORTER HOLDS A SPECIAL LICENSE ON THE FACE OF WHICH IS STAMPED THE LIMITED OFFICIAL USE

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LEGEND "BRITISH WEST INDIES ONLY."

7. WHILE THE EXISTENCE OF THESE SPECIAL LICENSES HAS NOT BEEN PUBLICIZED OUTSIDE GOVERNMENT, AND, INDEED, WAS NOT WIDELY KNOWN EVEN WITHIN THE TRADE AND INDUSTRY DEPARTMENT UNTIL IT BROKE IN THE PRESS, THREE DEVELOPED-COUNTRY EMBASSIES HAVE QUESTIONED THE DEPARTMENT ABOUT THEM IN THE PAST. IN A LETTER TO ONE FOREIGN EMBASSY IN WELLINGTON DATED IN 1976, A DEPARTMENT OFFICIAL STATED THAT THE TOTAL VALUE OF SPECIAL LICENSES OUTSTANDING FOR THAT YEAR AMOUNTED TO 0.7 PERCENT OF THE TOTAL IMPORTS SUBJECT TO LICENSING. FIGURES CITED IN PARA 3 ABOVE MAKE IT CLEAR THAT THE VALUE OF SPECIAL LICENSES MUST COME TO AT LEAST DOLS 2 MILLION; THE 1976 LETTER WOULD SUGGEST A VALUE MORE IN THE NEIGHBORHOOD OF DOLS 6-7 MILLION.

8. IN RESPONSE TO THE PRESS REPORTS, THE MINISTER OF TRADE AND INDUSTRY ISSUED A STATEMENT ON MARCH 22 IN WHICH HE SAID THAT THE PROGRAM ACCOUNTS FOR "A VERY SMALL AMOUNT OF NEW ZEALAND'S TOTAL IMPORTS--IN FACT, A MERE FRACTION OF NOT EVEN ONE PERCENT OF OUR IMPORTS." POINTING OUT THAT THE PROGRAM HAS REMAINED IN PLACE THROUGH SUCCESSIVE NZ GOVERNMENTS, HE SAID, "WHAT ALL THESE GOVERNMENTS HAVE SOUGHT TO PREVENT (IN KEEPING THE PROGRAM QUIET) IS A STAMPEDE OF PROSPECTIVE APPLICANTS FOR LICENSES IN A SCHEME WHICH ACCOUNTS FOR A MINUTE PROPORTION OF OUR IMPORTS."

9. EMBARSH COMMENT: THEY MAY HAVE SOUGHT TO PREVENT A STAMPEDE, BUT IT APPEARS THAT THEY GOT ONE ANYWAY. BY CHOOSING THEIR WORDS CAREFULLY, TRADE AND INDUSTRY OFFICIALR CAN HAVE IT BOTH WAYS--0.7 PERCENT OF IMPORTS

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SUBJECT TO LICENSING STILL AMOUNTS TO ONLY NQPMW PERCENT OF TOTAL IMPORTS. BUT IT CAN STILL MAKE POLITICAL PROBLEMS, AS WITH THE CHILEANS WHO WANTED TO DEVOTE THEIR ENTIRE DOLS 100,000 ALLOTMENT TO WINES; WHEN LOCAL PRODUCERS FOUND OUT, THEY COMPROMISED AT HALF OF THE ALLOTMENT, THE REST GOING FOR RUGS. WE ARE CONCERNED THAT THESE SPECIAL LICENSES GIVE THE LIE TO THE GNZ'S OFT-REPEATED CONTENTION THAT ITS IMPORT LICENSING SYSTEM DOES NOT DISCRIMINATE AMONG SOURCES OF SUPPLY BUT RATHER LEAVES IT SOLELY TO THE TRADING COMMUNITY TO DETERMINE WHERE IT WILL BUY ACCORDING TO COMMERCIAL CONSIDERATIONS.

10. VIRTUALLY ALL OF THE IMPORTS UNDER THE SPECIAL LICENSES HAVE BEEN OF CONSUMER GOODS. THE IMPACT OF THESE LICENSES ON U.S. EXPORTS TO NEW ZEALAND HAS ALMOST CERTAINLY BEEN NIL. NONETHELESS, UNLESS THE DEPARTMENT PERCEIVES SOME OBJECTION, WE INTEND TO EXPRESS INFORMALLY TO GNZ OFFICIALS OUR CONCERN THAT IN THIS INSTANCE NEW ZEALAND HAS CHOSEN TO PROVIDE ASSISTANCE TO LDC'S NOT THROUGH SUCH INTERNATIONALLY-ACCEPTED AND PUBLIC MEANS AS ITS GSP SYSTEM BUT RATHER THROUGH AVENUES WHICH ARE OUT OF THE ORDINARY AND OUT OF PUBLIC VIEW. WE ALSO WONDER ABOUT THE INCLUSION OF MOST OF EASTERN EUROPE, INCLUDING THE SOVIET UNION, WITH UNDERDEVELOPED COUNTRIES DESERVING SPECIAL TREATMENT BUT BELIEVE, IF ANYTHING IS SAID, WE SHOULD CONFINE OUR RESERVATIONS TO THE GENERAL PRACTICE RATHER THAN SINGLING OUT CERTAIN COUNTRIES. SELDEN

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